S&P Global
Ratings

RatingsDirect®

Summary:

Mount Pleasant, Texas; General Obligation

Primary Credit Analyst:
Karolina Norris, Dallas + 1 (972) 367 3341; Karolina.Norris@spglobal.com

Secondary Contact:
Allie Jacobson, Englewood 303-721-4242; allie.jacobson@spglobal.com

Table Of Contents

Summary:

Mount Pleasant, Texas; General Obligation

Credit Profile		
US$33.515 mil combination tax & rev certs of oblig ser 2024 due 05/15/2049		
Long Term Rating	A+/Negative	New
US$3.82 mil GO rfdg bnds ser 2024 due 05/15/2042		
Long Term Rating	A+/Negative	New
Mount Pleasant combination tax and rev certs of oblig ser 2020 dtd 09/01/2020 due 05/15/2041		
Long Term Rating	A+/Negative	Outlook Revised
Mount Pleasant GO (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Mount Pleasant GO (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Mount Pleasant GO (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings revised its outlook to negative from stable and affirmed its 'A+' underlying rating on Mount Pleasant, Texas' general obligation (GO) debt.
- S&P Global Ratings also assigned its 'A+' underlying rating to the city's estimated $33.5 million series 2024 combination tax and revenue certificates of obligation (COs) and $3.8 million series 2024 GO refunding bonds.
- The outlook revision reflects reserve draws over the past two years to levels below those of similarly rated peers, with another draw expected in fiscal 2023. There is at least a one-in-three chance that we could lower the rating should the city not generate surpluses and begin restoring reserves in fiscal years 2024 and 2025.

Security

The COs and GO debt outstanding constitute direct obligations of the city, payable from the proceeds of a continuing, direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within its borders. The 2024 and 2021 certificates are further secured by net surplus revenue of the city's waterworks and sewer system. We don't have sufficient information to rate the net revenue pledge, therefore, we rate the COs based on the city's ad valorem pledge. Other existing certificates are further secured by surplus revenue of the city's waterworks and sewer system not to exceed $1,000. Given the limited revenue pledge, we rate the COs based on Mount Pleasant's ad valorem tax pledge. The maximum allowable ad valorem tax rate in Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. We do not differentiate between the city's limited-tax GO debt and its general creditworthiness, because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources.

Proceeds from the certificates will fund water and wastewater improvements, including increasing future capacity, filter-replacement and lift-station projects. The GO bonds will refund a portion of existing debt for savings.

Credit overview

After adjusting for revenues and expenditures associated with the federal stimulus, Mount Pleasant posted two consecutive deficits in the general fund, which officials attribute to the former finance director's erroneous assumptions, in particular relating to salaries and transfers. The two deficits brought the available fund balance down to levels that we consider strong, with another deficit of about $298,000 estimated for fiscal 2023. Management notes that about $776,000 expended in fiscal years 2021 and 2022 on one-time projects was supposed to be funded out of the federal stimulus funds, but instead unrestricted general fund reserves were used. Consequently, the city anticipates reclassifying the equivalent amount to unassigned from restricted fund balance, improving available reserves. In addition, officials will work to better align revenues with expenditures and to increase fund balance to its new informal target of 25% of expenditures. We could lower the rating if performance and reserves do not improve as expected.

Over the next few years, Mount Pleasant will likely benefit from various economic developments, which should translate to revenue growth. We believe balanced operations will hinge on management capitalizing on the growth, especially given inflationary pressures and the loss of a firefighting contract with the county, which will require expenditure adjustments.

The rating reflects our view of the city's:

- Very weak-though-growing economy;
- Standard financial policies and practices under our Financial Management Assessment (FMA) methodology, and a strong institutional framework score;
- Weak budgetary performance after adjusting for one-time items, and reserves that are below the city's formal target and below average compared with those of peers; and
- Very weak debt and contingent liability profile, with no pension pressures.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) factors relative to Mount Pleasant's credit fundamentals and consider them neutral in our rating analysis.

Outlook

The negative outlook reflects our view that there is at least a one-in-three chance that we could lower the rating if Mount Pleasant fails to improve budgetary performance and begin restoring reserves in fiscal years 2024 and 2025, according with management's expectations.

Downside scenario

We could lower the rating if the city continues to post deficits beyond fiscal 2023, leading to additional reserve drawdowns.

Upside scenario

We could revise the outlook to stable if the city's budgetary performance improves and it builds up and maintains very strong reserves.

Credit Opinion

Weakened reserves that management plans to begin restoring in fiscal 2024

The city hired a new finance director with significant local government experience after consecutive deficits in fiscal years 2021 and 2022 (after adjusting out federal stimulus funds), which we understand resulted from inaccurate expenditure forecasts and unbudgeted transfers. The new finance director unretired to take on the role and will stay with Mount Pleasant for a couple of years, until the city finds a replacement. With the change, officials hope to generate general fund surpluses of about 2% beginning with fiscal 2024. Ultimately, management wants to build up reserves to an informal goal of 25% of expenditures, which is a new target, higher than its formal policy of 16.7%. We note the city is not meeting either target and expects reserves will drop to about 8% based on another deficit expected for fiscal 2023.

However, management expects to add about $776,000 back to unassigned fund balance via reclassification--this is equivalent to projects that were supposed to be funded with restricted ARPA moneys but unassigned fund balance was used instead. Once this is corrected, available fund balance will increase but remain below average compared with similarly rated peers.

The adopted fiscal 2024 budget was balanced, but the city expects to outperform it and potentially add up to $200,000 to available fund balance, largely due tight controls.

For fiscal 2025, officials anticipate the need to cut expenditures. Mount Pleasant has been receiving $1.3 million annually from the county for providing firefighting services. The county announced it will terminate the contract at the end of this fiscal year, which will necessitate the elimination of six fire fighter positions, along with the potential to cut another 12-15 positions elsewhere.

Should the city fail to balance its operations and restore reserves as planned, we could lower the rating.

Very weak economy, with employment concentration

We expect the city's economic metrics will remain stable over the outlook horizon given steady growth. As the county's seat, Mount Pleasant is in northeastern Texas at the intersection of State Highway 49 and U.S. Highway 271, with Interstate 30 and U.S. Highway 67 traversing it. The city serves as the principal commercial center for the area, with a local economy predominantly centered on manufacturing (35%), services (47%), and government (18%).

The city reports continued growth, including a new public improvement district expected to bring in 800-1,200 apartments and up to 500 single-family homes, along with commercial developments. There are also a couple industries looking at the city as a potential site for relocations and new ventures. The city's largest employers and taxpayers are stable, with some expanding, including Diamond C Trailers and Priefert, a stock panel manufacturer.

Adequate management practices, with reserves below policy levels

We revised our view of the city's financial management to adequate from strong under our FMA methodology due to optimistic budgetary assumptions that led to reserves falling below policy requirement, along with the failure to make intra-year adjustments to ensure balanced operations despite a formal monthly budget review process. Other practices include:

- Budgeting assumptions formulated using two years of historical data as well as consultation with outside sources such as the appraisal district;
- Monthly budget-to-actual results shared with council and amendments performed as necessary;
- A formally adopted investment policy adhering to state guidelines, as well as quarterly holdings and earnings reports shared with council;
- A debt management policy citing allowable issuances, amortization schedules and maximum allowable debt as a percent of AV; and
- A formal reserve policy requiring a minimum of 16.7% of operating expenditures in unassigned reserves, implemented for cash-flow stabilization, which the city is not meeting, and a new, higher informal target of 25% that management expects to achieve over the next several years.

The city does not have a formalized long-term capital plan, nor does it formalize financial projections beyond one year.

High debt burden, with no immediate additional issuance plans

Officials have no additional issuances planned, at this time.

The series 2024 COs are expected to be fully supported by the utility fund, although we will not consider the debt to be self-supporting until a three-year track record of support is established. Therefore, based on our criteria, we believe Mount Pleasant's net direct debt will remain high over the next few years. The city has increased utility rates fairly regularly to absorb recent issuances and this series, which leads us to believe that carrying charges on the governmental side will not increase materially and will remain manageable over the outlook horizon.

The city has privately placed several series of debt, totaling $22.5 million or 17% of its total direct debt. Legal provisions do not include unusual covenants, events of default or remedies that pose a contingent liquidity risk.

Pension and other postemployment benefits (OPEB)

We do not view pension and OPEB liabilities as an immediate credit risk. Contributions are manageable and they exceeded our minimum funding progress metric in fiscal 2022.

The city participates in the Texas Municipal Retirement System, a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the state. The city's net pension liability was $3.3 million as of Dec. 31, 2021, and the plan's funded ratio was 93.5%, assuming a 6.75% discount rate. Mount Pleasant offers a single employer OPEB plan, funded on pay-go basis, with a liability of $918,000 at fiscal year-end 2022.

Mount Pleasant, Texas--key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very weak economy				
Projected per capita EBI % of U.S.	54.1			
Market value per capita ($)	100,381			
Population		16,055	16,138	16,258
County unemployment rate(%)		4.3		
Market value ($000)	1,611,617	1,168,250		
Ten largest taxpayers % of taxable value	18.8			
Weak budgetary performance				
Operating fund result % of expenditures		-4.5	-5.3	-0.7
Total governmental fund result % of expenditures		-13.1	2.3	5.8
Strong budgetary flexibility				
Available reserves % of operating expenditures		9.3	13.2	21.5
Total available reserves ($000)		1,351	1,927	2,718
Very strong liquidity				
Total government cash % of governmental fund expenditures		26.4	44.6	67.4
Total government cash % of governmental fund debt service		333.6	614.8	818.6
Adequate management				
Financial Management Assessment	Standard			
Very weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		7.9	7.3	8.2
Net direct debt % of governmental fund revenue	611.5			
Overall net debt % of market value	13.4			
Direct debt 10-year amortization (%)	31.7			
Required pension contribution % of governmental fund expenditures		8.2		
OPEB actual contribution % of governmental fund expenditures		0.1		
Strong institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.